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TAGS: [ECON](#) [EFIN](#) [LH](#)

SUBJECT: ECONOMY SLOWING, BUT STIMULUS PLAN ON THE WAY

REF: A. 2007 VILNIUS 1045

[1](#)B. 2007 VILNIUS 993

Classified By: Ambassador John A. Cloud for reasons 1.4 (b) and (d).

SUMMARY

[1](#)1. (SBU) Lithuania's economy is clearly slowing, and the GOL's poor job explaining the necessity of its austerity plan has aggravated the situation. The austerity plan, designed to address the budget deficit left by the previous government, was not clearly explained and implemented so quickly that business and the tax authorities alike had little time to respond. The GOL appears intent not to repeat the same mistake with its stimulus plan, discussing it at a roundtable with business representatives and economic analysts and intending to implement the plan as soon as possible. In addition, latest figures show a declining current account deficit and an increase in bank deposits in December.

UNEMPLOYMENT UP, LIQUIDITY DOWN

[1](#)2. (U) The pace of layoff announcements has increased in [1](#)2009. The Lithuanian Labor Exchange, an agency that provides aid to job seekers, reported January 23 that 142,000 people were looking for jobs in Lithuania. This is 20,000 more than on January 1. European Commission interim forecasts in January 2009 for Lithuania predict an unemployment rate of 5.4 percent for 2008, 8.8 percent for 2009 and 10.2 percent for 2010. Swedbank has grimmer forecasts: a rate of about 9.5 percent in 2009 and 12 percent in 2010.

[1](#)3. (U) This negative news tracks with what we are seeing and hearing, with retail businesses on some of the main thoroughfares in Vilnius going out of business in recent weeks. The owner of a Vilnius restaurant, popular with locals and tourists alike, told us that this winter holiday season, unlike last, he had customers who attempted to bargain with him for catering and that these same customers wanted extended payment options stretching up to 30 days or more.

[1](#)4. (U) Exports, manufacturing and internal demand are sinking, according to Nerijus Udrenas, a Senior Economist at SEB bank. Jekaterina Rojaka, a Senior Analyst at DnB Nord bank, told us that overall credit has constricted in Lithuania. This is mostly due to the wariness of Swedish parent banks that have discovered problematic loans throughout the region, not just Lithuania. In addition, press reports show a 1 billion Litas (about 375 million USD) decrease in demand deposits of Lithuanian businesses in December. The result of this may be declining consumption according to Giedrius Miliauskas, a local economist.

[1](#)5. (U) Lithuania's challenges aren't just related to internal factors but in large export markets as well. A representative of a large cement producer in Lithuania said the drop in value of the Ruble is affecting its ability to export to Russia (the biggest single market for Lithuanian exports). Latvia's economic challenges also cast a pall over Lithuania, as it is the country's second biggest export market.

AUSTERITY PLAN WASN'T SOLD TO THE PUBLIC

¶16. (C) Both Finance Minister Semeta and Economy Minister Kreivys told the Ambassador that the GOL hadn't done enough to explain to the public the need for an austerity plan (ref C), a fact echoed by Udrenas and Rojaka. Semeta also conceded that delivering the grim news about austerity simultaneously with news of a coming stimulus package might have meant both would have been better received. The ministers said that the new government planned to do a better job in the future, and this has been borne out so far. Kubilius has already met with some large business owners to discuss the stimulus plan, held a January 30th roundtable to discuss GOL ideas for stimulus with representatives of business and bank economic analysts, and plans to meet with more business leaders over the coming weeks.

STIMULUS PLAN COMING

¶17. (SBU) Now that the GOL has implemented (and started to revise) its austerity measures, it is working on a stimulus plan which may cost between 4 and 5 billion Litas (1.5 billion USD - 1.9 billion USD). On January 30, the PM held a roundtable discussion to solicit businesses' and economic analysts' opinion of different stimulus ideas. Kubilius will use the information gathered to fine tune the package that should be presented to parliament by the end of the month. The plan will likely include measures to: simplify the application and distribution of EU funds for Lithuanian businesses; revive credit markets through the creation of a holding fund with up to 1.9 billion Litas (about 700 million USD) to aid SMEs via micro credits of 20K - 30K Litas (about 7,500 - 11,000 USD) as well as ordinary credit instruments that will be administered by commercial banks; assist the construction sector by providing approximately 3 billion Litas (about 1.1 billion USD) to subsidize energy efficiency projects (e.g., insulation) in public and residential buildings; reduce the bureaucratic burden on businesses; and improve the business, export and investment climate.

SOME POINTS OF LIGHT

¶18. (U) Press reports show that deposits held by private individuals rose in December from November. This may show an increase in confidence in the banking sector or a renewed interest in saving. We were told by one American IT firm representative with large operations in Vilnius that the global economic slowdown would benefit him, as companies seek to outsource IT services such as his, rather than keeping them in house. Lithuania's current account deficit was 9.4 percent of GDP in Q3 of 2008 as compared to 14.6 percent in ¶2007. Finally, Udrenas predicts that productivity increases combined with a focus on core competencies will make for stronger surviving industries in Lithuania.

COMMENT

¶19. (SBU) Many of our Lithuanian interlocutors recognize that the new GOL was in a corner when it came into office due to profligate spending by its predecessor. Yet, none of these same interlocutors feel the new GOL has done a good job of explaining its austerity plan. The GOL is making an effort not to repeat the same mistake with the stimulus plan and is indicating that it will implement these measures as soon as possible.

CLOUD